



DEPARTMENT OF THE TREASURY

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Hearing Testimony
The Honorable John W. Snow
Secretary of the Treasury
On the Benefits of Health Savings Accounts (HSAs)
Before the Special Committee on Aging
United States Senate
May 19, 2004

Chairman Craig, Ranking Member Breaux and distinguished members of the Committee, thank you for the opportunity to testify before you today on the benefits of Health Savings Accounts (HSAs).

On March 16th, the President joined several small business owners to discuss health care costs and what the federal government can do about them. Dan Schmidt was one of those participants. He owns Mercury Office Supply, a Minnesota office supply retailer with 13 employees. For 2004, Mercury's annual health care premiums were set to increase to \$36,000. Dan says he considered dropping coverage for his employees.

Instead, he was the first to sign up for the group HSA plan provided by Prime Health Care. The plan became effective on January 1, 2004. With the HSA, Dan's new premiums were just \$24,500, saving Mercury approximately \$11,500 this year. Dan is using the savings to help fund his employees HSA accounts. Dan's employees now have the coverage that they need and more control over their health care spending.

Mr. Chairman, there are thousands of employers like Dan across this country who have signed up for Health Savings Accounts in the few months they have been available. HSAs were part of the Medicare bill passed by Congress and signed by President Bush on December 8th of last year.

As Dan's example demonstrates, these accounts signal a historic change in the way we look at health care. The themes you hear from Dan and other HSA participants are consistent – they talk

about lower costs, increased control, and the ability to plan for the future. HSAs reduce insurance costs, enabling more employers to begin or retain health insurance benefits for their employees. They give people more control over who they see for health care services. And they encourage saving for future medical expenses, including retiree health expenses.

The advantages of HSAs are numerous:

- HSAs encourage savings for future health care needs. Earnings from HSA balances accumulate tax free. Distributions are tax free as well, as long as they are used to pay for qualified medical expenses.
- HSAs provide people the resources they need to access health care. Individuals and their employers both can contribute pre-tax dollars into the accounts. Contributions are limited to the insurance policy's annual deductible, subject to a cap of \$2,600 for individuals and \$5,150 for families. Individuals aged 55-64 can make additional catch-up contributions.
- HSAs are flexible. The accounts can pay for health insurance deductibles and co-payments for medical services, products, and prescriptions. They can pay for over-the-counter drugs, long-term care insurance, and health insurance premiums during any period of unemployment. They can also pay for out-of-pocket expenses under Medicare, including premiums for Part B and the new drug benefit (Part D).
- HSAs improve upon Archer Medical Savings Accounts (MSAs). HSA are available to everyone, not just the employees of small business and the self-employed, and there is no limit on the total number of policies.
- HSAs are portable. Workers who move from job to job take the account with them, just like an Individual Retirement Account. The HSA is also owned by the individual, not the employer, and goes with the individual in the event of a job change.

HSAs put individuals in charge of their health care purchasing decisions. Consumers often find traditional health insurance plans frustrating because it sometimes feels like decisions about their health are being made by other parties...not themselves. With an HSA, health care decisions are made by the individual and their health care provider – nobody else. HSAs increase the ability of individuals to make decisions that are in their own best interest.

HSAs also give consumers the opportunity to budget for their health expenses over many years. HSA balances roll over from year to year, allowing consumers to build up money in their accounts when they have low health care needs, leaving them with more money to cover out-of-pocket expenditures when the need arises.

The President's budget would further expand the availability of HSAs by allowing taxpayers an above-the-line deduction for insurance premiums associated with HSAs. This proposal would give individuals the same tax advantage that employers and the self-employed enjoy today when purchasing health insurance. This would be an important step in ensuring that the advantages of HSAs are not limited only to employer-provided health insurance.

One of our greatest challenges with HSAs is getting the word out and helping people understand how they work. Among other efforts, we have a page on our website dedicated to HSAs that

includes “Frequently Asked Questions.” We also set up an e-mail address – hsainfo@do.treas.gov – as well as a voice mailbox: 202-622-4HSA, where individuals can submit questions.

For those in the insurance and financial community, the Treasury Department is engaged in offering a series of guidance from the IRS on some of the more pressing questions. We issued our first guidance in December, just a few weeks after the enactment. At that point we asked the public to comment and help us resolve any outstanding issues.

On March 30th of this year, we issued guidance covering the definition of “preventive care” and detailing how prescription drugs fit within the definition of the high-deductible health plan that must accompany an HSA. And just last week, we issued guidance that outlined how an employer could successfully integrate an HSA program with flexible spending arrangements and health reimbursement arrangements.

There are still issues outstanding, and we want to make sure both communities – those who offer and those who use HSAs – have all the guidance they need. In June, we hope to issue the next set of major guidance to further clarify how these accounts will work.

It should also be noted, Treasury is working extensively with others in the Administration to promote the availability of HSAs. The Small Business Administration, for example, has participated in the release of our previous guidance and is helping to spread the word among small business owners throughout the country by use of roundtables and other events. The Office of Personnel Management has asked health insurance carriers participating in the Federal Employees Health Benefits Program (FEHBP) to develop HSA plans for the 2005 benefit season. The Department of Labor recently issued guidance making clear that HSAs generally will not constitute an employee benefit plan under ERISA.

We will continue to work closely with those who, like we at the Treasury, are interested in making sure HSAs are available to individuals and employers across the country. For this reason, it is encouraging to see a wide variety of business and consumer interest groups – from the Hispanic Business Roundtable to the National Federation of Independent Business and the 60 Plus Association -- take a strong and active interest in HSAs.

I truly believe we will look back on the creation of Health Savings Accounts as a giant step forward in our efforts to ensure Americans have increased access to the health care services they need.

Again, thank you for the opportunity to be here today. I look forward to answering any questions you may have.